THE CITY OF SAN DIEGO

MANAGER'S REPORT

ISSUED: June 2, 2004 REPORT NO. 04-117

ATTENTION: Honorable Mayor and City Council
Docket of June 7, 2004

SUBJECT: Fiscal Year 2005 Interim Financing Needs

SUMMARY

Issues -

1. Should the City Council adopt a Resolution authorizing the City Manager and City Treasurer to execute a Note Purchase Agreement between the City of San Diego ("City") and Bank of America, N.A. ("B of A") for the interim financing of the City's projected cash flow deficit (the "Interim Financing"), pursuant to which the City will sell a Fiscal Year 2005 Short-Term Tax and Revenue Anticipation Note (the "Note") in an amount not to exceed $150 million on a private placement basis to B of A, to authorize the City Treasurer to act as the Paying Agent for the Note, and to execute all agreements in connection therewith?

2. Should the City Council adopt a Resolution authorizing the Financial Advisory Services Agreement by and between the City and Public Resources Advisory Group ("PRAG") to provide financial advisory services for the Fiscal Year 2005 Tax and Revenue Anticipation Notes for an amount not to exceed $115,000?

Manager's Recommendations -

1. Adopt a Resolution authorizing the City Manager and City Treasurer to execute a Note Purchase Agreement between the City and B of A for the Interim Financing, pursuant to which the City will sell the Note in an amount not to exceed $150 million on a private placement basis to B of A, to authorize the City Treasurer to act as the Paying Agent for the Note, and to execute all agreements in connection therewith.

2. Adopt a Resolution authorizing the Financial Advisory Services Agreement by and between the City and PRAG to provide financial advisory services for the Fiscal Year 2005 Tax and Revenue Anticipation Notes for an amount not to exceed $115,000.

Other Recommendations - None

Fiscal Impact

The Interim Financing, to be effectuated by the sale of the Note, in an amount not to exceed $150 million, will retain the right to drawdown cash in the amount of up to $150 million, less all related costs of issuance, including but not limited to underwriter and underwriter's counsel fees. The fees related to the bond counsel and financial advisory services will be paid from the Tax Anticipation Notes Revolving Fund (Fund No. 65013).

The Note will have a nominal maturity of thirteen months and the ability to retire early without penalty. The Note is expected to bear a floating rate of interest in the range of 1.5 to 2.5 percent per annum until it is retired, which is currently expected to occur prior to the end of the calendar year. The fiscal impact of this Interim Financing will depend on the total amount of the cash draw downs, which translates to an increase in the face amount of the Note outstanding with B of A over the term of the Interim Financing.

BACKGROUND

The City has issued Tax Anticipation Notes or Tax and Revenue Anticipation Notes ("TANs or TRANs") in a public offering for every year since Fiscal Year 1968 (except Fiscal Year 1979) to finance the General Fund cash flow needs of the City in anticipation of the receipt of the property tax revenues from the County in December and April of each year. The TRANs are generally sold in the first weeks of June so funds are available for General Fund disbursements that have to be made starting on July 1 of each year.

This year, the City has determined that it would be prudent not to issue the TRANs via a public offering until the independent audit of the Comprehensive Annual Financial Report for Fiscal Year 2003 ("FY 2003 CAFR") is completed. In order to address the anticipated cash flow needs in the first quarter of Fiscal Year 2005, an alternative financing means is contemplated. The immediate cash needs projected for the first quarter of Fiscal Year 2005 are best addressed by means of an interim, or "bridge" financing to be effectuated by the sale of a note that is privately placed. This note will be retired in connection with a subsequent regular public offering of TRANs, which is expected to occur prior to the end of calendar year 2004 and subsequent to the release of the FY 2003 CAFR.

DISCUSSION

This private placement financing does not involve a public offering of the Notes. Rather, the Notes are offered to, and purchased only by, knowledgeable, sophisticated investors capable of fully and independently evaluating risk.

As presently contemplated, the City will enter into a Note Purchase Agreement with B of A, a major commercial bank, pursuant to which the City will agree to sell the Note in an amount not to exceed $150 million to B of A, in return for which it will receive the right to drawdown cash as needed in an amount up to $150 million less costs of issuance over the agreed term. The Note, which will have a nominal maturity of thirteen months and the ability to retire early without penalty, will bear a floating rate of interest in the range of 1.5 to 2.5 percent per annum until it is retired.

Pursuant to the agreement, the buyer, B of A, will agree to retain the Notes in its own investment portfolio, and will not resell it to any third party or otherwise assign or transfer directly or indirectly any interests in the Notes during the term of the transaction. The contemplated Notes will be secured by a pledge of the taxes and revenues to be collected in Fiscal Year 2005. City Charter Section 92 authorizes the issuance of short-term notes in any fiscal year in anticipation of the collection of taxes and revenues of such fiscal year.

The selection of B of A was made pursuant to an issuance of a request for proposals by PRAG, the City's financial advisor, for underwriter services, on April 13, 2004. The City received ten competitive bids from underwriters and determined that it was in the best interests of the City that B of A purchase and retain the Note until they are paid off by the City rather than offering them either in a public offering or in limited private placement to additional qualified investors.

The City requires the professional services of PRAG, an independent financial advisory firm, to provide financial advisory services for the Fiscal Year 2005 Tax and Revenue Anticipation Notes. PRAG has proposed to provide such services for a fee in an amount not to exceed $115,000, including $15,000 in out of pocket expenses.

Financing Documents

The documents being submitted for approval at this time will enable the City to issue the Note, as described above. The Resolution approves the form, execution, and delivery of financing documents and certain other actions within the City Manager's purview and limitations, which are necessary and in the best interests of the City to issue the Note. A brief description of the major financing documents follows:

- **Note Purchase Agreement** – An agreement between the City and B of A, pursuant to which B of A agrees to purchase the Note from the City and the City agrees to deliver it to B of A. The agreement details the representations, warranties, and agreements of the City and B of A in connection with the transaction.

- **Accompanying Document to the Resolution** – A document presenting all the supporting documents for the Interim Financing, including the Cash Flow Deficit Report, the Note Purchase Agreement, and a form of the Note.

CONCLUSION

The Interim Financing will be effectuated through a Note Purchase Agreement between the City and B of A, pursuant to which the City will make a commitment to sell the Note in an amount not to exceed $150 million to B of A.

It is recommended that the City Council authorize the Interim Financing. It is also recommended that the City Council, authorize the Financial Advisory Services Agreement by and between the City and PRAG in relation to the Interim Financing.

ALTERNATIVE

Do not approve the requested actions necessary for the Interim Financing. This is not recommended because of the City's cash flow needs in the first quarter of Fiscal Year 2005.

Respectfully submitted,

Mary E. Vattimo	Approved: Patricia T. Frazier
City Treasurer	Deputy City Manager